Lake Resources NL (ASX:LKE)

**Reaffirming Buy Rating on Inaccurate Short Seller Report**

Lake Resources responded to a recent report issued by J Capital, a short-seller, which it says puts forth incorrect technical information pertaining to its 100%-owned Kachi Li brine project in Argentina. The report’s description of the DLE process does not pertain to Kachi’s DLE technology being developed with Lilac Solutions. Lilac's ion exchange (IX) process for Kachi has already undergone extensive testing and a demo plant is currently being constructed which should help alleviate further technical concerns. The recent decrease in Lake's share price in our opinion offers a great investment opportunity at a low entry point. Part of this is likely in line with the broader market correction, but it is also apparent that selling continues based on both the CEO departure (read more) and now the self-serving short seller report. We don't believe either one of these events impact the technical or economic merits of Kachi. Our only concern would be financing the 30% equity portion of the expanded US$870M capex which may lead to further share dilution or require alternative means of financing. Off-take MOU negotiations continue but management suggests there may be arrangements to help move Kachi forward, perhaps helping cover capex.

- **J Capital claims incorrect, according to management.** The report criticizes the wrong technology and provides incorrect technical information by referencing an adsorption process that is not being used for Li extraction at Kachi. Importantly, IX process is well-established in the water industry and widely utilized by uranium mining. Unlike other processes, Lilac’s IX technology is a chemical process which uses minimal fresh water and represents a socially and environmentally responsible approach to direct Li extraction (DLE).

- **Process was outlined in 2020 PFS and backed by extensive testing.** Assertions of high costs, high water usage and toxic waste do not pertain to Lilac’s IX technology. Li ions are exchanged for hydrogen on a ceramic bead using no fresh water. Pre-treatment to remove Mg or Ca is not required. Li is stripped from the bead using HCl acid to produce a Li chloride solution. Bead efficiency is consistent for >500 cycles and testing shows potential for >1000 cycles. Spent brine is returned to the salar by managed re-injection which helps protect freshwater from seeping into the aquifer. Process water is recycled.

- **Demo plant testing is a large de-risking event.** Construction of the demo plant is expected to commence next week with processing of Kachi brine beginning in August. Pilot testing since 2020 has successfully created Li chloride solutions with 99.97% purity.

- **Equity funding poses dilution risk.** Lake has secured 70% of funding requirements for Kachi (read more) and we believe the remainder of the equity funding poses the biggest challenge for management, but more from a dilution standpoint. We assume ~US$130M is required in 2024 at A$1.50/sh to help cover initial expanded project capital.

**We maintain our BUY rating and target price of A$3.15/sh.** Our target price is derived using a DCF to which we apply a 1.0x multiple. **Upcoming catalysts:** 1) Commissioning of a demo plant (Q3/22), 2) Final Hanwa and Ford offtakes (Q3/22), 3) Resource update (Q3/22), 4) DFS and ESIA (H2/22), 5) Project financing (H2/22), 6) Assays from Argentina brine projects (H2/22), 7) Construction decision (H2/22), and 8) Production (H2/24).
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Disclosure Statement
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